RESPONSE
to the
1983 REPORT
of the
AUDITOR GENERAL

December 1984

Province of British Columbia
Ministry of Finance

British Columbia Cataloguing in Publication Data

Main entry under title:
Response to the ... Report of the Auditor General. --
1980-

Annual.
ISSN 0711-9054

1. British Columbia. Office of the Auditor General. Report of the Auditor General. 2. Finance, Public - British Columbia - Accounting - Periodicals. I. British Columbia. Ministry of Finance.

HJ9921.Z9B73a 354.7110072'32'05

RESPONSE TO THE 1983 REPORT OF THE AUDITOR GENERAL

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Statement by The Honourable Hugh A. Curtis on the 1983 Report of the Auditor General

I am pleased to present the government's response to the 1983 *Report of the Auditor General*. As in previous reports, the Auditor General has called attention to important areas of financial control which she considers require improvement. The government appreciates this objective evaluation of its financial systems and is taking corrective action where necessary.

The government's financial management systems and procedures have undergone significant changes in recent years. Planned improvements have proceeded approximately on schedule, even with the staff reductions imposed by the fiscal restraint program. The continuing progress of these improvements is the result of conscientious efforts by the financial managers of government who are committed to maintaining the integrity of its financial systems.

Given the present quality of service and professionalism of the government's financial management, I am sure that the future holds the promise of highly efficient financial information and control systems.

Hugh A. Curtis
Minister of Finance

MANAGEMENT OVERVIEW

The 1983 *Report of the Auditor General* is the sixth such report on the government's management of its financial resources and systems of financial reporting and control. Since the first report considerable efforts have been made to improve financial legislation, reporting policies and practices, and the internal control systems used to manage and protect financial resources throughout government. Modern and efficient financial legislation is now in place; the government's financial statement presentation and disclosure is among the most advanced in Canada; and steady progress is being made in the implementation of financial administration policies and internal control systems and procedures.

The financial administration policy and control systems implementation processes have been influenced greatly by the trend towards decentralization of accounting and reporting functions from the central agencies to the ministries. The trend reflects the government's emphasis on the responsibility of the ministries for their financial activities and their accountability through financial management reports.

Functions such as financial management reporting of ministry expenditure programs and disbursement of low value cheques direct from ministry bank accounts, which used to be performed by the Office of the Comptroller General, are now being transferred to the ministries. This transfer of responsibility carries with it the need for stand-alone accounting and internal control systems and procedures not formerly required by the ministries. While increasing the financial information capabilities of the government the decentralization process has also had the effect of slowing down the policy implementation process. Nevertheless, care has been taken to maintain the integrity of the financial systems during this transition stage.

The government's training courses in financial administration continue to be well supported, with the demand for places either fully or oversubscribed. The week-long Financial Management and Control Course was completed successfully by 145 government employees during the past year. Also, seven employees were awarded certificates under the complementary Financial Management Certificate Program. This now brings the totals to 245 government employees who have successfully completed the course and 23 who have completed the certificate program since these financial management training programs were started in 1982.

Another measure taken in the past year to improve the quality and productivity of financial management was a study of the classifications of financial officers across government. This study has resulted in a proposal for a Financial Officer Series to replace the present system of classification of financial personnel. The proposed new series more clearly defines positions and responsibilities and provides an attractive path for employees wishing to pursue a financial career in government.

The following *Response to the 1983 Report of the Auditor General* outlines the government's progress in responding to problems identified by the Auditor General and recommendations made in her most recent annual report to the Legislative Assembly. Cross-references to the 1983 *Report of the Auditor General* are made in the right-hand margin of this volume.

Section, Subsection	Auditor General's Reference (1983 Report)

C GOVERNMENT ACCOUNTING POLICIES

C 1. Capital Financing Authorities

P. 5
1.4–1.6

As stated in the *Response to the 1982 Report of the Auditor General* the accounting policy applied to exclude the Capital Financing Authorities from the Consolidated Financial Statements is under review by the government and its accounting advisers.

Until the government is satisfied that a consolidated form of accounting treatment of these entities will result in improved or fairer presentation, the current method of disclosure will be followed.

The current method of disclosure includes showing in the Schedule of Guaranteed Debt, details of the government's long-term obligation for the Capital Financing Authorities debts. Also, in a note to the Consolidated Financial Statements, reference is made to the potential ongoing commitment of the government to meet the debt service costs of the Authorities and the actual amount contributed in the current fiscal year.

Since there is no authoritative pronouncement or guidance on the principles of consolidation of government entities at this time, the government will await with interest the results of deliberations by the CICA Public Sector Accounting and Auditing Committee in this matter.

C 2. Valuation of Pension Fund Investments

P. 7
1.7–1.11

The policy regarding deferral and amortization of pension fund investments was criticized by the Auditor General as inappropriate because of the broad scope of the application and the extended amortization periods permitted. This method of deferral and amortization is being applied only to pension funds in Trust Funds Under Administration, and is supported by the CICA Research Study *Accounting for Portfolio Investments*. The government considers that this is a fair way of allocating income or losses over succeeding years when long-term securities are traded to improve a fund's performance. However, prudence will be exercised in the application of this method to ensure the appropriateness of its use.

Section, Subsection	Auditor General's Reference (1983 Report)

D GOVERNMENT FINANCIAL STATEMENTS

D 1. Low Interest Loan Assistance (LILA) Program

P. 10
2.7–2.13

The net realizable value of all LILA funds held by the British Columbia Development Corporation has been included in the General Fund for the fiscal year ended March 31, 1984. Future funding of the program will be covered by the appropriate statutory authority.

D 2. Liquor Distribution Branch

P. 13
2.14–2.16

The operating results of the Liquor Distribution Branch will be included as a note to the General Fund statements for the fiscal year ended March 31, 1984. Differences in accounting policies will also be disclosed. The complete financial statements of the Liquor Distribution Branch will continue to appear in Volume III of the Public Accounts.

D 3. Comparability of the Estimates and Financial Statements

P. 14
2.18–2.19

The government has cross-referenced by note the Combined Statement of Operating Results to the Schedule of General Fund Expenditure by Ministry to facilitate the comparison between the Public Accounts and the Estimates. Treasury Board has taken under consideration the recommendation by the Auditor General to present the Estimates on a functional basis.

Section, Subsection	Auditor General's Reference (1983 Report)

E INTERNAL CONTROL

E 1. Control of Government Bank Accounts

P. 18
3.7–3.9

The unrecorded government bank accounts identified by the Auditor General are now included in the Ministry of Finance central register. Although the accounts were not recorded on the central register, the funds were fully accounted for in the accounting system and the financial statements. Every effort will be made to ensure that all government bank accounts comply with the requirements of the *Financial Administration Act* and Treasury Board policy.

E 2. Bank Reconciliations

P. 19
3.10–3.11

Bank reconciliation procedures have been reviewed and improvements to the process are currently being implemented. Improved procedures will result in clearly documented bank reconciliations which are prepared on a timely basis for the prompt approval of management.

E 3. Mail Handling Weaknesses

P. 19
3.12–3.15

Mail handling procedures in the Revenue Administration Branch of the Ministry of Finance have been formalized to ensure control over all cheques and documents received. Formal procedures have been established to record the finding and return of inadvertently missed documents.

E 4. Physical Count of Securities

P. 20
3.16–3.18

The Central Borrowing and Planning Branch of the Ministry of Finance, which is responsible for securities administration, will ensure that periodic counts of securities are performed. The objective will be to count a significant per cent of the securities annually. In combination with the annual count of the Auditor General these counts will ensure effective control of securities held in the vault. The intent is to ensure that procedures and volume of counts will equal or surpass the normal standards of the investment industry.

E 5. Performance Bond Deposits

P. 21
3.19–3.23

Procedures are being developed by the Office of the Comptroller General for government-wide use of a system that will result in accurate record keeping in the ministries as well as control in the Central Accounting System.

The Ministry of Energy, Mines and Petroleum Resources has prepared a listing of all security deposits held in trust as at March 31, 1984, for which it is responsible, and forwarded a copy to the Office of the Comptroller General. A review was made of all trust assets held to ensure that the records are correct and the securities meet the requirements of the various Acts under which they are held. The ministry plans to develop a computerized program during the 1984/85 fiscal year to record and control all guarantee and performance deposits under its jurisdiction.

E 6. Approval of Excess Project Costs

P. 22
3.24–3.26

The Auditor General commented on two projects undertaken by the Ministry of Transportation and Highways.

M.V. PRINCESS OF VANCOUVER

Treasury Board approval was obtained for conversion costs of $8.9 million. The total amount expended for conversion as at March 31, 1983 was $9.2 million.

Section, Subsection	Auditor General's Reference (1983 Report)

Concurrent with the conversion the vessel underwent refit works which are required by all vessels on an ongoing basis. Refit costs are not subject to tender call and contract award. They may be incurred with the general approval of Treasury Board if funds are appropriated for that purpose. Total refit costs incurred to March 31, 1983 amounted to $2.8 million. This amount was reduced to $1.9 million through subsequent adjustments by suppliers in the 1983/84 fiscal year. Actual conversion costs exceeded the Treasury Board approved amount by $347,127. Because this overrun is within Treasury Board's allowable limits the ministry does not consider that further approval is necessary.

HIGHWAY 97 (HART HIGHWAY)

Treasury Board approved the project based on an estimate made in early 1980. It was a unit price, rather than lump sum/fixed price, contract for roadbuilding in very difficult terrain. Under the circumstances it was not possible to estimate exactly the additional materials that might be required as the work progressed.

Since there was a requirement under the contract to pay for the quantities moved by the contractor, funding was provided through the ministry's continuing summary of projects approved by Treasury Board in the annual Estimates. Treasury Board Staff concur that Treasury Board's requirement for special approval of overruns does not apply to this unit price contract.

E 7. Printing and Stationery Purchases

P. 23
3.27–3.30

The Queen's Printer has instituted measures to ensure that all invoices paid are supported by evidence that the goods and/or services have been received.

E 8. Income Assistance Payments

P. 24
3.31–3.33

The Ministry of Human Resources recognizes the weaknesses in internal control identified by the Auditor General in her 1983 Report. Appropriate controls over incomplete documentation have been addressed in the general requirements document for the new GAIN Payment System. The new system will also establish procedures to provide for adequate segregation of duties. Control weaknesses in the system for issuing emergency cheques have been identified and appropriate measures have been taken. With regard to missing documentation, the ministry is monitoring compliance with ministry policy and identifying situations where corrective action is necessary.

E 9. Shared-Cost Programs

P. 25
3.34–3.36

All documentation for shared-cost programs administered by the Ministry of Human Resources is now pre-audited to ensure that all eligible costs are identified and claimed for reimbursement from the federal government. Claims are reconciled to program expenditure records maintained by the ministry.

Shared-cost programs administered by the Ministry of Education are based on a cost per student rate determined prior to the school year on the basis of audited financial statements and other related reports of the institutions. This pre-determined rate is used to recover training costs from the federal government on a monthly basis. When the financial statements and other related reports become available following the close of the fiscal year, the actual cost of the program is determined, and a claim is prepared and audited showing any difference between the actual cost and the amount recovered. This claim becomes a basis for negotiating the prices of a subsequent year.

Delays have occurred in producing the claims because of the length of the time required to receive audited financial statements and other related reports. The Ministry of Education is now updating claim preparation procedures to ensure that claims are submitted on a timely basis.

Section, Subsection	Auditor General's Reference (1983 Report)

E 10. Government Payroll System

P. 27
3.37–3.40

Payroll input forms prepared by ministries are now batched at the ministry level. Ministries certify that all documents contained in each batch are correct and authorized. These procedures will ensure that all properly approved and authorized data is entered into the payroll system.

E 11. Superannuation Commission Accounting

P. 28
3.41–3.45

The Superannuation Commission agrees that the modernization of its accounting systems could bring substantial benefits in increased staff productivity and more responsive and reliable reports. The systems' shortcomings have been apparent to the Commission for some time, but other priority demands on resources have resulted in limited progress in this area. Over the past five years the Commission has concentrated on upgrading the administrative processing systems. Data capture and benefit processing are now handled quickly and accurately ensuring a high degree of integrity for the pension funds under administration. While this progress has made the heavily manual accounting systems seem outmoded in comparison, it has not been possible to simultaneously automate both the administrative and accounting processes.

The Commission is now ready to turn its attention to the accounting systems and looks forward to significant progress over the next few years.

Section, Subsection	Auditor General's Reference (1983 Report)

F STATUS OF GENERAL FINDINGS AND RECOMMENDATIONS CONTAINED IN PREVIOUS ANNUAL REPORTS OF THE AUDITOR GENERAL

F 1. Government Accounting Policies

F 1.1 Exclusion of Financing Authorities from Consolidated Financial Statements

P. 31
1981 2.4

See comments in C 1 of this report.

F 1.2 Exclusion of WCB from Consolidated Financial Statements

P. 31
1982 1.5

The decision to exclude the Workers' Compensation Board and its unfunded liabilities from the consolidated financial statements is reassessed annually.

The government is of the opinion that the insurance program of the Board continues to be actuarially sound.

F 2. Application of Accounting Policies

P. 32
1981 4.7

Considerable progress has been made in the implementation of stated accounting policies over the past year. Completion of ministry financial systems will have a positive impact in this area of concern.

F 3. Government Financial Statements

F 3.1 Hospital Insurance Fund

P. 33
1979 7.40 and 7.41

A legislative amendment was proposed by the Ministry to delete the requirement for the Hospital Insurance Fund under the *Hospital Insurance Act*, in both 1983 and 1984. In both instances, the amendments were withdrawn. In light of this, the amendment has not been proposed for 1985 and there is no apparent intent, by the Ministry of Finance, to reestablish the Hospital Insurance Fund.

F 3.2 Court Trust Bank Accounts and Trust Fund Liabilities

P. 33
1982 2.9

All court trust bank accounts are now reconciled monthly. The reconciled bank balance and offsetting liability is reported in the Public Accounts at year-end.

F 4. Internal Control

F 4.1 MINISTRY OF FINANCE

F 4.1.1 Control Over Securities Lodged as Deposits

P. 35
1978 88.20

Procedures are being developed for government-wide use of a system that will ensure accurate record keeping in the ministries as well as central accounting control by the Office of the Comptroller General.

F STATUS OF GENERAL FINDINGS AND RECOMMENDATIONS CONTAINED IN PREVIOUS ANNUAL REPORTS OF THE AUDITOR GENERAL

Section, Subsection	Auditor General's Reference (1983 Report)

F 4.1.2 Establishing and Maintaining Records of Ministry Bank Accounts

P. 36
1982 3.12

See comments in E1 of this report.

F 4.1.3 Leave Management System

P. 36
1982 3.16

Responsibility for the centralized leave management system has been transferred to the Ministry of Provincial Secretary and Government Services. The ministry will undertake to strengthen the leave management system and identify the linkages with the government's new payroll system.

F. 4.2 MINISTRY OF HEALTH

F 4.2.1 Administration and Control of Patient Trust Accounts

P. 36
1979 7.38

Policies for upgrading the patient trust account system have received the approval of the Deputy Minister and are now being implemented.

F 4.2.2 Hospital Patient Maintenance Charges Receivable

P. 37
1980 4.26

Policy and procedures for the write-off of hospital patient maintenance charges receivable have been implemented. Policy and procedures for the accounting and collection of patient maintenance accounts will be dealt with once the outstanding issue of charging involuntarily committed patients is resolved.

F 4.3 MINISTRY OF TRANSPORTATION AND HIGHWAYS

F 4.3.1 Motor Vehicle Department Revenue

P. 37
1982 3.21

A report has been prepared by the external auditors of I.C.B.C., Touche Ross & Co., Chartered Accountants, indicating their satisfaction with the adequacy of the Corporation's systems and procedures to provide an effective check on revenues collected and ensure that the Motor Vehicle Department receives its appropriate share of revenues from I.C.B.C. A copy of the report has been submitted to the Auditor General.

G. PROGRESS INDEX

Issue	Auditor General's 1983 Report Reference Page	Status
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F1 Government Accounting Policies		
F1.1 Exclusion of Financing Authorities from Consolidated Financial Statements	**31**	See Comments in C1
F1.2 Exclusion of WCB from Consolidated Financial Statements	**31**	Resolved
F2 Application of Accounting Policies	**32**	Action Being Taken
F3 Government Financial Statements		
F3.1 Hospital Insurance Fund	**33**	Resolved
F3.2 Court Trust Bank Accounts and Trust Fund Liabilities	**33**	Resolved
F4 Internal Control		
F4.1 Ministry of Finance		
F4.1.1 Control Over Securities Lodged as Deposits	**35**	Action being taken
F4.1.2 Establishing and Maintaining Records of Ministry Bank Accounts	**36**	See Comments in E1
F4.1.3 Leave Management System	**36**	Resolved
F4.2 Ministry of Health		
F4.2.1 Administration and Control of Patient Trust Accounts	**36**	Resolved
F4.2.2 Hospital Patient Maintenance Charges Receivable	**37**	Action Being Taken
F4.3 Ministry of Transportation and Highways		
F4.3.1 Motor Vehicle Department Revenue	**37**	Resolved

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